Entitlement Management – Exploring the Potential of Access Rights and Licensing

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ENTITLEMENTS: RECOGNIZING THE NEED

In the early days of computing, software was thought of by system vendors almost as a necessary evil that made the hardware do something useful. It was often "thrown in" as an integral part of the system, with virtually no consideration given to its real value or even the vendor's ongoing rights in its own invention (unlike the hardware, which was well-hedged by a number of patents).

As an independent-application software industry arose to solve specific problems for defined groups of customers, it became clear that new methods of doing business were needed. Because these vendors did not have a hardware revenue stream on which to piggyback their products, they clearly needed some means to monetize the software itself. And, even though they might "sell" thousands or millions of exact copies of their intellectual property, they clearly needed a way to protect their sizeable investment in that IP.

The answer to both problems turned out to be the novel concept of entitlement. To understand what an entitlement is, consider the difference between buying a file cabinet for the office and "buying", say, Microsoft Excel.

When a customer buys a file cabinet, he literally owns it lock, stock and barrel, and may use any and all features of that piece of furniture any way he wishes. He can fill it with files, move it to another facility, disassemble it, use it as a model to make a similar-looking cabinet (as long as he doesn't copy any patented features), or sell it. Once the cabinet is paid for, the customer's relationship with the supplier is basically finished. However, when that customer "purchases" Excel, he doesn't "own" the code or logic of Excel by any manner or means; what he's really paid for is a right to use that copy of Excel, according to terms and conditions defined by Microsoft and enshrined in a license agreement. In fact, what he's actually bought is an intangible entitlement. And, unlike the cabinet case, this is clearly the beginning — not the end — of a lasting, nuanced and interdependent relationship between the customer and his vendor.

Entitlements are limited rights to use a product, or specific features or capacities of a product. Over time, they've evolved from their original form (virtually unrestricted and perpetual) to today's bewildering variety, where specific rights may be based on or include:

- The number of concurrent users of a software application
- The number (and serial numbers) of servers that can run a shared application
- The specific machine running a desktop application
- A specific period of time
- The capacity of the server on which an application runs
- A specific set of product features
- The right to receive updates and/or support under a maintenance agreement

As software and firmware have become indispensable to more and more high-tech appliances, vendors such as cell phone and handheld device makers, telecom switchgear manufacturers and myriad others — who don't really think of themselves as software publishers — have increasingly found it very beneficial to adopt the entitlement model of doing business. Among other benefits, the approach enables the vendor to:

- maximize both revenue and fairness by charging users for only what they use, and
- for only as long as they use it;
- control manufacturing and distribution costs by shipping every customer the samefull-featured product, but then enable only those features a given user wishes to pay for by simply emailing him/her the appropriate software key.

The Double-Edged Sword

As beneficial as the entitlement regime has been for technology vendors and their customers, it also brought with it a significant information-management problem. The vendor must now maintain records on all of the attributes that their entitlements are based on, for every shipped product and installed customer, over the full lifecycle of that product and that customer. Once a vendor expands beyond a few dozen product SKUs and a few thousand customers, the problem rapidly becomes unmanageable at any reasonable cost structure without automation.

Further, customers and channel partners — along with the vendor's sales operations staff — need to have timely, online access to the entitlement database. Why? Consider that every change involving a user on any of those attributes must minimally be recorded, and may result in a dollar charge; and then consider the myriad of changes that go on routinely in corporations, from feature upgrades through facility moves, to mergers and acquisitions. A vendor's support staff would simply balloon uncontrollably, unless customers and channel partners are empowered to answer many of the pre-event what-ifs and to record many of the change events.

ENTITLEMENT MANAGEMENT: FINDING A SOLUTION

Many a CFO has asked, "Why can't we handle this problem within our enterprise resource planning (ERP) system?" Such systems are the backbone of most equipment vendors' operations; they're adept at managing linear production operations, from the acquisition of raw materials, through production and distribution, to invoicing and accounts receivable. If this were all that were needed — i.e., if the company simply made file cabinets, as in our introductory example — then an ERP would be enough.

The problem, of course, is that ERP systems were designed for the linear, one-and-done flow of tangible products, and not for the complex, never-ending world of intangible entitlements. They simply have no knowledge of, or support for, the most basic entitlement concepts.

It is sometimes tempting for the in-house IT function to offer to develop a custom entitlement management solution, either from scratch or by modifying the company ERP system. In most cases, this is a decision that will eventually come to be regretted, for a number of reasons:

- typically, the complexity of entitlement management is greatly underestimated...
- which means that so is the requisite development effort;
- upon completion, IT will then be saddled with a substantial maintenance job, and a
- never-ending "wish-list" backlog as product managers define new entitlement types;
- if the choice was to enhance the installed ERP, then each future ERP release may
- occasion a mad scramble to keep the entitlements engine running.

There are commercially-available, vendor-supported applications designed specifically for entitlement management. Outsourcing this function prevents all of the disadvantages of IT resource consumption, uncertain/late delivery of needed functionality, and possibly also the risk of the entitlement application "going dark" for some period following ERP upgrade releases. Outsourced software management extends existing business systems like ERP and CRM by handling the specialized tasks of entitlement management, while integrating with those enterprise applications to meet broader operational/financial needs.

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Whether the choice becomes an internal or an outsourced, vendor-supported application the features required remain the same. The specific nature of entitlement management demands a specialized, purpose-built solution, designed around the requirements of entitlement management. The key characteristics of a successful entitlement management solution are:

- Ability to manage all of the details related to entitlements (time, quantity, product/ feature, status, parties)
- Support for all of the potential transactions that can occur against an entitlement (activations, expirations, renewals, splits, merges, moves, modifications, ownership transfer, etc.)
- Support for customer and channel partner self-service (but with access limited to only the information required for specific authorized transactions)
- Support for relationships between and across entitlements

Entitlement management not only maintains the rights to a particular product but also facilitates in added revenue streams through turning on and off keys. The return on investment includes lowered operating expenses, well-managed accounts and improved customer service. Effective entitlement management protects your present and future investments by unlocking the full potential to the established rights and keys to the end-user.

ABOUT MODUSLINK

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